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Publications



1995 ANNUAL REPORT

Ontario Hydro International Inc.



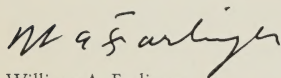
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Letter to the Chairman

To the Board of Directors of Ontario Hydro:

On behalf of the OHII Board of Directors, I am pleased to submit to you the 1995 Annual Report of Ontario Hydro International Inc.



William A. Farlinger

Chairman

Ontario Hydro International Inc.

Corporate Profile

Ontario Hydro International Inc. (OHII) is a wholly owned subsidiary of Ontario Hydro, one of the largest electrical utilities in the world. OHII operates as a global utility, providing Ontario Hydro's expertise and products to utilities, governments and businesses around the world. OHII also invests directly in the power sector, internationally.

Message from the President

1995 WAS AN EXTREMELY PRODUCTIVE AND SUCCESSFUL YEAR FOR ONTARIO Hydro International Inc. (OHII). Revenue and net income targets were successfully surpassed. OHII's international reputation, coupled with parent company Ontario Hydro's commitment to the global marketplace and ability to serve international markets, provided a solid foundation on which to build the business. The excellent performance in 1995 is due also, in no small measure, to the business acumen and dedication of OHII staff.

In 1995, OHII established the foundations to operate as an independent subsidiary of Ontario Hydro and to compete more effectively in the changing international power-sector marketplace.

Throughout 1995, we continued to build our consultancy services practice, offering expertise to clients in regions around the world.

In Latin America, Luz del Sur contributed greatly to our year's success. With pride I can report that this electrical distribution utility exceeded our expectations for the year. Its excellent financial and operating performance have made Luz del Sur a model in Latin America for utility privatization. OHII's successful partnership in this investment is poised for new market opportunities in Latin America.

The isotopes business also performed well in 1995. I see exciting possibilities ahead for the use of isotope products in an array of new industrial, medical and pharmaceutical applications, and we are actively pursuing these prospects.

Although the partners in Asia Power Group, a project development group for Asia, mutually agreed to dissolve that company, we remain committed to working in the Asia Pacific region, and I am optimistic about new developments in China, India and southeast Asia.

I am also very excited about the direction we have taken in focusing our project development activities. In response to the changing global marketplace, in 1995 we established a Project Development Group. Through this group, we are forging partnerships with investors, suppliers and developers, in which we provide extensive operator expertise for both new and existing generation facilities and transmission and distribution systems. As with all our activities, we bring a strong commitment to the high ethical standards of practice we have established over many years, standards for which OHII is known and respected in the international market. OHII's Code of Ethics articulates our commitment to human rights and international social justice.

We also continue to promote Ontario and Canadian business and export trade; we were active throughout 1995 in supporting and hosting a number of international trade delegations.

I would like to thank W. David Hopper, who stepped down at the end of 1995 as



OHII Board of Directors from left to right: **Lawrence Leonoff** (*Senior Vice-President, General Counsel & Secretary, Ontario Hydro*); **Eleanor Clitheroe** (*Executive Vice-President, Chief Financial Officer & Managing Director, Corporate Business Group, Ontario Hydro*); **Ian London** (*President and Chief Executive Officer, OHII*); **John Fox** (*Executive Vice President & Managing Director, Customer Services Group, Ontario Hydro*); **William Farlinger** (*Chairman, Board of Directors, Ontario Hydro*); **Dr. Allan Kupcis** (*President and Chief Executive Officer, Ontario Hydro*); **Rod Crown** (*General Counsel, OHII*); **George Hugh** (*Executive Vice-President & Managing Director, Generation Business Group, Ontario Hydro*).

OHII's first chairman. He brought a wealth of international experience and a valuable global perspective that helped establish OHII as a major participant in the international power sector.

With Mr. Hopper's departure, William Farlinger steps in as OHII's new chairman. As the former chairman and CEO of one of Canada's pre-eminent accounting and management consulting firms, Mr. Farlinger brings extensive knowledge and insight about the competitive marketplace. Under his chairmanship of both OHII and Ontario Hydro, OHII is well positioned to continue to provide the services and products that distinguish Ontario Hydro as the utility of choice at home and around the world.

Ian London

President & CEO

Ontario Hydro International Inc.



From left to right: **Barbara Keenan** (*Human Resources*); **Gian Di Giambattista** (*Project Development*); **Helen Fisch** (*Corporate Development, Isotopes Group*); **Ian London** (*President*); **Nalin Mody** (*Business Services*); **Vicky Sharpe** (*Consultancy Services*); **Rod Crown** (*General Counsel*).

Commitments to strong performance, ethical business standards, social justice and sustainable development are hallmarks of OHII.



In 1995, Ontario Hydro International Inc. created an endowment fund to honour Lisa Hamann, an OHII employee who passed away at age 31. The award will be granted annually to a woman enrolled in the University of Toronto MBA program, on the basis of leadership, healthy lifestyle, community activities, academic standing and interest in international studies. Dominique Barker, left, the first winner of the Lisa Hamann Memorial award is congratulated by Ron Hamann (Lisa's husband) and Ian London, right.

Finding New Pathways to the Customer

THE WORLD OF PROVIDING ELECTRICITY IS CHANGING AND THE KEY TO SUCCESS in the new marketplace is in finding new pathways to the customer.

The global pressures to be competitive, to industrialize, to increase people's comfort and security and to address environmental concerns are all linked to the provision of electricity. The ability to deliver cost-effective, reliable electricity is recognized as a critical factor in the economic restructuring, growth and evolution of national and regional economies.

Historically, the tie between economic development and electricity supply has always been strong. The responsibility for electricity supply traditionally rests with national or local governments. Many governments are currently examining their role as an electricity provider as they seek to unburden debt, respond to the impacts of free trade and to meet the overall desire for open competition. As well, customers are demanding greater flexibility in obtaining power, improved efficiency and reliability in delivery. Governments in many countries are engaged in privatization and restructuring of the power sector and looking for expert assistance to help address the massive changes they face.

For Ontario Hydro International Inc. (OHII) and its parent company, Ontario Hydro, responding to the pressure to provide a secure, reliable supply of electricity to support economic development has always been a way of life. In its 90 years of opera-

tion, Ontario Hydro has become the largest electrical utility in North America in terms of installed generating capacity and the fourth-largest in the world. The services Ontario Hydro offers its customers – through hydroelectric, fossil and nuclear electricity generating facilities and an immense, interconnected power grid – are driven by an expertise that makes it a world leader.

For the past 35 years, OHII and its predecessors, New Business Ventures and Foreign Projects Divisions of Ontario Hydro, have effectively marketed this knowledge, products and services internationally, building an enviable reputation around the world. Ontario Hydro's vast capabilities form a solid foundation for assisting other electrical utilities, whether in utility management, integrated resource planning, power development, management information systems, nuclear operations and waste management or providing isotopes for a variety of beneficial uses.

Now, OHII is facing new demands in the marketplace and is taking strategic initiatives to meet the global changes. In 1995, innovative pathways to customers, both current and prospective, led to new partnerships and ventures. OHII's reputation for delivering expertise that meets customer needs is sought by global partners. Partnering extends the range of OHII's customer services in many areas, as well as giving access to previously unexplored markets. By focusing on regions experiencing substantial growth or restructuring – such as Asia, Latin America and Eastern Europe – new pathways are emerging.

Confidence in the unique products offered by OHII is demonstrated by the many long-term customer relationships and a growing number of new clients. For example, as a key player in the isotopes market, OHII provides essential materials for health, science and pharmaceutical use. Proven technologies developed by Ontario Hydro, such as IPACS – an integrated protection and control system – can extend the operating parameters of a power system and avoid costly retrofits and system expansions. As well, Hydro's high-density concrete containers for safe, long-term storage of low- and high-level radioactive waste have been approved for use both in Canada and internationally.

OHII is actively marketing technologies, products and capabilities, directly and through partnerships and alliances in key regions. Forming partnerships with locally or regionally established companies, provides the necessary complement to the capabilities OHII offers. Shared knowledge and technology, along with equity investment, can pave the way to substantial successes.

Much has changed in the past 35 years. However, one thing remains constant: OHII's ethical practices and standards. The commitment to high ethical business standards, social justice and sustainable development is a hallmark of OHII's corporate culture. Incorporating ethical standards into all business practices enhances the unique competitive advantage OHII provides to utilities, governments and the power sector worldwide.

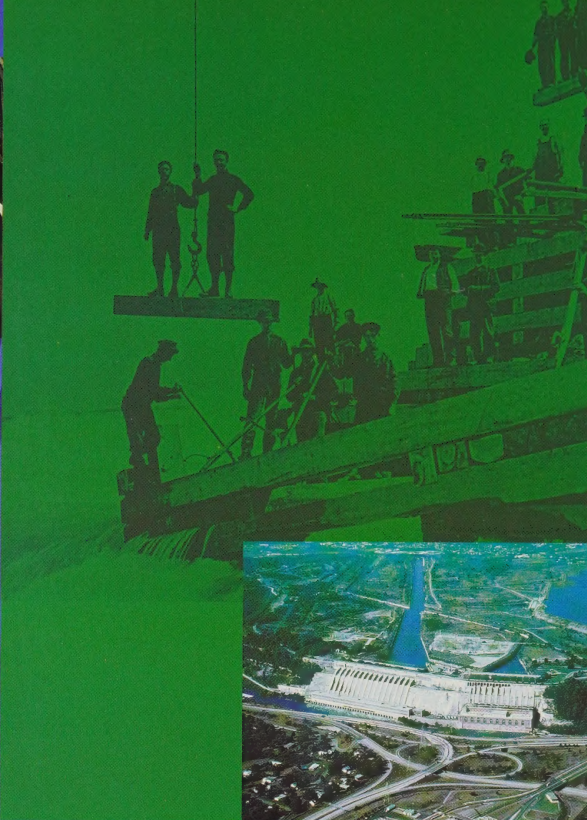
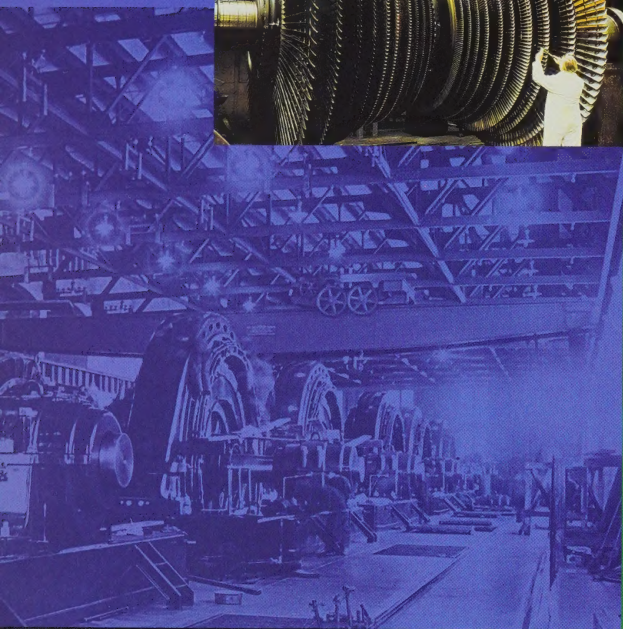
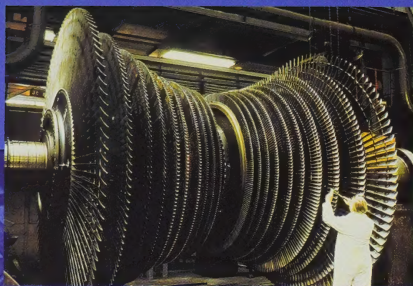
Ontario Hydro International Inc.

Consultancy Services

Isotopes

Investments

Project Development



OHI's reputation for excellence in energy consulting is built on 35 years of Ontario Hydro delivering these services internationally.

90 years ago, Ontario Hydro began supplying electrical power from Niagara Falls to Ontario customers. Today, the knowledge, skills and experience acquired from operating one of North America's largest and most diverse electrical utilities are available through OHI to meet the world's changing needs for power. Turbine maintenance (upper left), Sir Adam Beck GS, Niagara Falls (right).

Consultancy Services

AS THE WORLD'S NEEDS FOR ELECTRICITY CHANGE, REVEALING PREVIOUSLY UNTAPPED markets and exciting new opportunities for electrical utilities, OHII is responding with vigour. By focusing on the changes in the international marketplace, OHII is effectively positioned, through Consultancy Services, to maintain and expand its role as a world leader in international energy consulting.

OHII positions for new opportunities in many ways. OHII continues to build on past successes and an excellent reputation. At the same time, Consultancy Services seeks new markets and new partnerships, to provide services that effectively meet the needs of utilities, industries and governments around the world. The Latin American and Asian markets in particular offer challenges and opportunities to which OHII is uniquely qualified to respond.

Consultancy Services prides itself in developing strong partnerships with private-sector companies and utilities both in Canada and in target markets. OHII has taken important steps to foster and cultivate relationships with manufacturers, consulting engineers, contractors, other critical players and clients in pursuing mutually beneficial business opportunities.

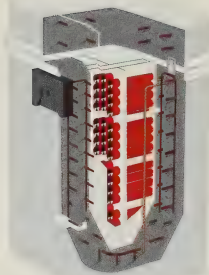
OHII's experience, network of contacts and efforts are rapidly opening up new opportunities for marketing innovative products developed by Ontario Hydro. In addition, customers continue to rely on OHII's worldwide reputation for providing effective



Performance and Achievements

Korea

Work currently under way with Hyundai Heavy Industries of Korea, to upgrade and customize Ontario Hydro energy management software (EMS) software, is expected to forge new partnerships and market opportunities for this proven product.



HDC Canisters

Ontario Hydro maintains one of the world's most comprehensive programs for managing used nuclear fuel. High Density Concrete (HDC) canisters, developed by Ontario Hydro, are designed to receive storage trays in a wet or dry environment, thereby avoiding the handling of individual fuel bundles.

In cooperation with the Government of Canada, Ontario Hydro is studying the feasibility of adapting this proven design to meet the particular spent-fuel needs of Derzhkomatom, Ukraine's nuclear operator.

technical skills and services in work such as station rehabilitation, transmission system operations and technology transfer.

A combination of quality services derived from practical experience and innovative products means OHII is able to bring forth business solutions that create a competitive advantage for clients.

Asia

The Asian market, where the need for electrical power is driven by a rapidly growing economy, provided significant opportunities in 1995 for OHII to meet that need by developing new partnerships and building on established relationships.

In the Republic of Korea, OHII is proud to work closely with the Korea Electric Power Corporation and the Korea Water Resources Corporation. Relationships developed over the years with these organizations helped pave the way to a new partnership in 1995, between OHII and Hyundai Heavy Industries. The collaboration involves enhancement and modification of the energy management system (EMS) applications software currently in use at Ontario Hydro's state-of-the-art System Control Centre. Once the software is developed, both Hyundai and OHII will be in a strong position to sell this software to others in the Asian market.

In 1995, OHII returned to the Philippines to work once again with the National Power Company (NPC). In partnership with SNC Lavalin, a Canadian company, OHII



IPACS

Developed by Ontario Hydro, IPACS provides power system operators with a system that fully integrates substation protection and control functions, thereby lowering operating and maintenance costs. IPACS is attracting the attention of utilities around the world; many are expected to follow the example of Luz del Sur in Lima, Peru, which purchased four units in 1995.

China

As part of a consortium of Canadian companies, Ontario Hydro is working with the utilities of four South China provinces, their governments and the Ministry of Energy to strengthen their environmental assessment capabilities in energy planning and power system operations.



examined earlier analyses on opportunities for management information systems development. OHII experts provided more detailed recommendations concerning the ways in which such systems could be selected and integrated into NPC's existing and planned management systems.

In Sri Lanka, OHII continues to provide assistance to the Ceylon Electricity Board in strengthening that utility's management information systems.

Long-standing relationships with Thailand's energy sector are helping to efficiently meet the country's electrical needs. OHII's multi-year contract with the Electricity Generating Authority of Thailand (EGAT), begun in 1994 to assist in developing a demand-side management program, progressed well during 1995. EGAT has already seen success with its own customers and achieved national recognition for implementing energy efficiency. In addition, OHII conducted 115-kilovolt, bare-hand, live-line training for Thailand's Provincial Electricity Authority. In Bangkok, OHII completed work for the Metropolitan Electricity Authority on upgrading of computerized financial and accounting systems.

In China, work on the expansion of the generation, transmission and distribution systems is progressing rapidly. In partnership with Monenco-Agra, Teshmont and Manitoba Hydro, OHII began work on two initiatives in 1995. One of these, in participation with China's national government and the governments of four southern provinces – Guangdong, Guangxi, Yunnan and Guizhou – is aimed at preparing a

Strategic Energy Plan. By providing expertise in the areas of environmental and social analyses as well as environmental impact forecasting, OHII will be able to assist these institutions in developing their capabilities to make long-term plans and policies for their electrical energy sector.

As participants in a second initiative, OHII is working with the Electric Power Planning and Engineering Institute and the same four provinces to transfer skills to enhance the operation of their power system, which serves China's industrial heartland.

As China looks for ways to address its environmental challenges, OHII is well positioned to share its expertise. In 1995, OHII entered into a joint venture agreement to bid on a project to install one of China's first "clean coal" systems.

One of the most exciting projects in 1995 was a joint effort with a Hong Kong-based utility, during which a team of Ontario Hydro and client utility personnel worked in close association to examine ways of enhancing this utility's transmission system. The full-service capability and extensive operating experience that distinguishes Ontario Hydro from more typical engineering consultancies has proved particularly successful in this project.

Ontario Hydro's expertise in working with large industrial customers in Canada has positioned it well to work with the industrial and manufacturing sector that is driving China's economic engine. Working directly with industrial companies in China, OHII provides energy-efficiency guidance, which translates into cost savings and increased competitiveness for these clients.

LATIN AMERICA

The demand for electrical power is growing rapidly in Latin America, where, to meet these needs, it is estimated that an additional generating capacity of 155,000 megawatts will be required over the next 15 years. This prediction places significant pressure on utilities to improve their operating performance and find new sources of capital.

As the power sector shifts from public to private ownership, new and alternative sources of electrical generation are being examined, along with ways of improving efficiency of existing systems. OHII's 20-year history in the region, along with Ontario Hydro's experience in matters of third-party access, privatization and increasing business efficiency, lead to a prime position for serving this region's needs.

Ontario Hydro's innovative products also enable electrical utilities to increase operating efficiencies. Luz del Sur, the electrical utility that serves the southern part of Lima, Peru, is one example. Luz del Sur has purchased four IPACS units, a reliable and proven integrated protection and control system. In 1995, OHII installed three units, two in new stations and the third in an older station being rehabilitated. IPACS will substantially lower station operating costs and defer the need for significant capital expenditures, while improving system reliability.

OHII's commitment to creating new partnerships helps to bring improved business

solutions to the marketplace. For example, the integrated resource planning assistance completed in 1995 for Companhia Energetica de Minas Gerais (CEMIG) in Brazil has produced benefits for this utility and may lead to new opportunities. Following its successful completion, CEMIG has expressed interest in partnering with OHII to sell similar power-planning services to other utilities in the region.

NORTH AMERICA

Because Ontario Hydro has established itself on the leading edge of change, requests for services and products are increasing from utilities across Canada and the United States.

Ontario Hydro's experience in life extension and rehabilitation of fossil-fired generating stations is being shared with Hydro-Québec in the rehabilitation of its 600-megawatt Tracy Power Plant. During 1995, work involved assessing a proposal to install a distributed control system, preparing the project master schedule, and carrying out technical inspections and consultations with Cartier Monenco, the prime project contractor.

OHII's multi-year contract with New Brunswick Power, which operates a CANDU-600 reactor at Point Lepreau, is another example of how customers utilize Hydro's unique services. This project, which was completed in the fall of 1995, involved SLAR, a spacer locating and repositioning tool for spacer springs in the reactor's pressurized fuel tubes. Ontario Hydro assisted in the preparation and training for the service, as well as its delivery. SLAR should allow New Brunswick Power to operate without any planned pressure tube maintenance for the next 10 to 12 years, significantly improving its operating performance.

Elsewhere, a demonstration IPACS unit is being installed by the Bonneville Power Authority at its Tillamook transformer station in Washington State.

Along with innovative products and services, Ontario Hydro's traditional capabilities are serving the North American market. Under a number of separate contracts, OHII carried on the work of providing the Canadian Electrical Association, as well as the Electric Power Research Institute in the United States, with a variety of technical assistance services in generator maintenance and turbine blade repair.

EUROPE

OHII's European focus for a number of years has been on the emerging markets of Eastern Europe, where there are a multitude of exciting opportunities for a utility with the expertise and skills of OHII.

Through the regional office in Budapest, OHII continues to build on a 10-year presence in Hungary. In 1995, OHII delivered a live-line training program for distribution maintenance to Dedasz, a Hungarian electrical distribution company. As part of that contract, OHII is continuing to work with Dedasz in live-line maintenance technology.

Also in 1995, OHII was invited by the Hungarian utility, MVM Rt, to enter into a

Performance and Achievements

Egypt

OHII continues to build on its eight-year relationship with the Egyptian Electricity Authority. In 1995, OHII won a multi-year contract to broaden the scope of training previously provided. Under this new contract, OHII will be providing "attachment training" to a variety of field and management support services staff.



Brazil

In addition to designing and implementing energy efficiency programs for Ontario's industrial, commercial and residential sectors, Ontario Hydro has gained an international reputation for its accurate and reliable savings verification analyses. Johnson & Johnson's 20-storey building in Sao Paulo, Brazil, realized a 30 per cent savings in energy use one year after OHII completed a lighting retrofit of the building.

contract funded by the World Bank, to provide an Environmental Master Plan.

Throughout 1995, OHII continued to work with the Government of Canada to adapt Ontario Hydro's high density concrete (HDC) storage system to the particular spent fuel needs of Ukraine's Chernobyl nuclear power plant. OHII and Ontario Hydro Nuclear are supported in this work by Derzhkomatom, Ukraine's nuclear operator. Once complete, this project will include the design, engineering, testing, safety analysis, licensing support, local fabrication and fuel loading of Chernobyl's spent fuel. This project forms part of the Government of Canada's nuclear safety initiative in Ukraine.

In Romania, OHII continues to provide skilled personnel to Atomic Energy of Canada Limited to support the Romanian government in the commissioning of the Cernavoda-1 nuclear power station (a CANDU-600 reactor). This dedicated team of professionals – between 20 and 30 strong – has been instrumental in bringing this facility closer to operating reality.

A Bulgarian contract to provide project management and procurement services to its Kozloduy nuclear power plant reached a successful conclusion in 1995.

THE MIDDLE EAST

OHII's work in the Middle East in the past year has been centred largely on EIJST, a group representing Egypt, Iran, Jordan, Syria and Turkey. EIJST is developing a

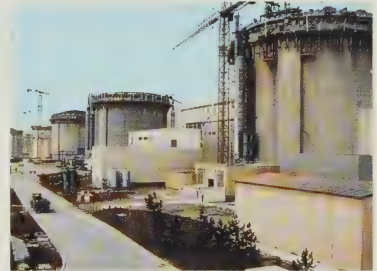


Hungary

OHII's 10-year presence in Hungary has resulted in a wide range of services to this country's power sector. Our management information systems, live line training, and demand side management expertise have assisted the power sector in strengthening their operations to meet the competitive pressures facing Hungary's economy.

Romania

Under contract with RENEL, Romania's national electric utility, OHII continues to provide project management and commissioning services for the five-unit CANDU nuclear power reactor at Cernavoda. Unit 1 of this facility is expected to be in-service by the end of 1996.



five-country transmission system interconnection, and OHII conducted a study on a portion of the interconnection, in partnership with Hydro-Québec.

Building on an eight-year relationship with the Egyptian Electricity Authority, OHII is delivering the second phase of transmission training. This follow-on contract is with the Canadian International Development Association, in partnership with ARA Consulting, an Ontario-based management consulting firm.

The market in the Middle East offers many opportunities, and OHII seeks to develop partnerships in this region. In 1995, discussions were held with a number of companies to discuss providing live-line training to Middle Eastern countries.

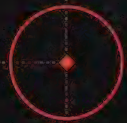
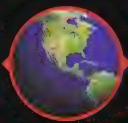
AFRICA

OHII's 35-year history in providing services overseas began in Africa. Provision of assistance for material procurement and technical training was provided in 1995 to the Volta River Authority in Ghana. Personal and professional ties – particularly with utilities in Ghana, Ethiopia, Kenya, Zimbabwe and South Africa – will lead to future commercial opportunities.



Customers look to OHI for efficient and reliable delivery of isotopes that contribute to the safety and well-being of people everywhere.

Ontario Hydro's heavy water plant (left) on the shores of Lake Huron produces heavy water for CANDU operations and research. The tritium removal facility (top right) at the Darlington Nuclear Station, extracts tritium for a variety of industrial, research or medical uses. Cobalt 60 produced at the Bruce Nuclear Power Development (lower right) has a variety of sterilization and disinfestation uses that benefit people around the world.



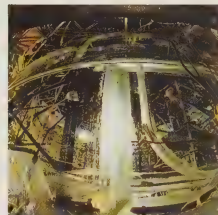
Isotopes

DURING OPERATIONS, ONTARIO HYDRO'S CANDU NUCLEAR-RELATED FACILITIES produce an array of products – cobalt 60, heavy water and, more recently, tritium – materials that have contributed to the well-being and safety of people around the world for more than 25 years. The production of these isotopes is possible due to the particular operating characteristics and requirements of the CANDU-style nuclear power station.

International customers depend on OHII as a reliable source for high-quality isotope products. These products have a wide range of important uses – from providing powerless lighting sources to aiding the medical and food industries and supporting scientists involved in research and development.

Ontario Hydro is the world's largest supplier of the radioactive isotope cobalt 60. For the past 25 years, Ontario Hydro's cobalt 60 has been used primarily to sterilize disposable medical supplies, such as gloves, scalpels, needles and intravenous tubing.

Many exciting applications for irradiation using cobalt 60 have developed in recent years. Along with the growing demand for sterile single-use products, there is also a need for radiation processing of a wide variety of cosmetic, pharmaceutical and consumer goods. Future applications include the irradiation of biomedical wastes in municipal sewage and sludge, as well as processes that increase the toughness and shock resistance of certain plastics.



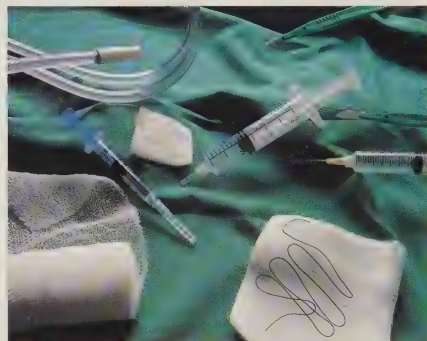


Tritium

Ontario Hydro has gained an international reputation for its ability to produce and deliver high-quality tritium, reliably and efficiently. This material is utilized in a wide range of safety-enhancing products such as powerless emergency signs.

Cobalt 60

For more than 25 years, Ontario Hydro has been the primary supplier of cobalt 60 used in sterilizing medical equipment.



One of the most important new markets for irradiation is in food processing. Irradiation extends the shelf life of food products and reduces the risk of food-borne disease by destroying dangerous bacteria and insects. Food irradiation has been approved for use in 35 countries, and all indicators are that this safe, effective process will expand as its role in managing food supplies gains recognition.

The radioactive isotope tritium also has a variety of applications and, through OHII, Ontario Hydro continues as the world's largest commercial source of supply. The lighting industry uses tritium in self-illuminating signs, tritium EXIT signs, and markers for emergency lighting in commercial buildings and airplanes, where small amounts of the gas light up lettering and symbols, without the need for electricity. Biomedical research employs tritium as a safe radioactive tracer, allowing scientists to track the metabolism or movement of drugs and other substances. Ontario Hydro's tritium is used in Canada and internationally by fusion research groups, who are investigating fusion as an efficient, inexpensive energy source. In 1995, OHII completed its largest single commercial sale of tritium for research, meeting all the client's expectations for safe and efficient delivery.

Sales of deuterium oxide (heavy water) also contributed to OHII's success in 1995. A two-year contract was secured with the Korean Electric Power Company to provide the Wolsong 1 CANDU nuclear reactor with the heavy water required for its nuclear program.



Sudbury Neutrino Observatory

Ontario Hydro's high-quality heavy water will form the core of the Sudbury Neutrino Observatory. Located in a nickel mine 2,000 metres below ground, this facility will be the largest and most sensitive of its kind in the world and will support an international team of scientists and engineers in their work to better understand the age and fate of the universe.

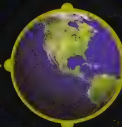
OHII also provides the heavy water used in the production of nuclear magnetic resonance solvents, which have medical research and diagnostic applications.

Interesting applications for heavy water are developing in the global war on childhood diseases. As part of the World Health Organization's Expanded Programme on Immunization and the Children's Vaccine Initiative, major scientific advances are being made in developing heat-stable vaccines, with the result that heavy water may be able to contribute to the global eradication of vaccine-treated diseases.

OHII is proud to support Canadian leading-edge research. For example, through Atomic Energy of Canada Ltd., OHII is providing heavy water required for the research at the Sudbury Neutrino Observatory. At this observatory, some of the most forward-thinking research in the world is underway. Here scientists are able to observe and characterize neutrinos, which are sub-atomic particles produced in the centre of the sun. The results of the neutrino experiment will assist scientists in their testing of hypotheses about the age and size of the universe.

In marketing and delivering isotopes, OHII works with the Atomic Energy Control Board of Canada and the Department of Foreign Affairs and International Trade to ensure that business is conducted respecting the highest standards of safety and regulation.

Working with these partners, OHII continues to support and assist scientific and technological developments that will use these important products in innovative and life-enhancing applications.



OH's investments demonstrate the benefits of sharing Ontario Hydro's management experience and provide returns to Ontario customers.

"The future of Luz del Sur is expected to be very promising. We are confident that our clients, our employees, the shareholders and the whole community of Lima – and Peru – will be proud of our results." – Jose Enrique Diez Gil, Chairman, Luz del Sur.

Investments

THE INTERNATIONAL OPERATIONS OF OHII HAVE BEEN GREATLY ENHANCED BY THE excellent performance of the investments in Luz del Sur and Iris Power Engineering.

OHII's investment in Luz del Sur, an electrical utility serving the southern sections of Lima, Peru, demonstrates the benefits of Ontario Hydro's experience in improving the operating efficiency and management systems of electric utilities. OHII's representation on Luz del Sur's Board of Directors, along with Hydro personnel assigned to key senior management positions with the utility, have been instrumental in Luz del Sur's significantly improved operating performance in 1995. Nearly 70,000 new customers were connected during the year, and the time to fill orders for new customer connections dropped from more than one year to about one week. From a system-performance perspective, total energy losses have also been significantly reduced from their 17 percent level of a year earlier to just under 14 percent.

The financial performance of Luz del Sur reflected the improvements. Revenues grew by a healthy 16 percent over the previous year, to US\$263 million, and net income increased from US\$6 million to US\$33 million. These strong financial results permitted the 1995 declaration of dividends to shareholders.

OHII's experience in Peru has also confirmed the wisdom of developing strategic partnerships. An excellent cooperative working relationship has evolved between OHII and Chilquinta, the Chilean utility with which OHII partnered in Ontario Quinta, the



Performance and Achievements

Luz del Sur

The effectiveness of strong international relationships is demonstrated in OHII's partnership with Chilquinta. Through this partnership, the operating performance of the Peruvian utility Luz del Sur has vastly improved in a single year. New customers in Lima are now being connected to the system in only one week instead of waiting a year. Energy losses have fallen and revenues have grown substantially.



investment vehicle for Luz del Sur. Through Board participation of both companies in Ontario Quinta and Luz del Sur and through open communication, OHII and Chilquinta have shown that a Canadian/Latin American partnership can bring the best of regional and specific experience, culture and perspective to joint investments. There will be future opportunities to extend this successful partnership.

Luz del Sur's pursuit of system improvements also creates opportunities for OHII's products and services, such as IPACS – an integrated protection and control system. Increased opportunities for the sale of Ontario products and services will open up as Luz del Sur continues to modernize and grow.

OHII's first investment, Iris Power Engineering Inc., also demonstrates continued growth. This Ontario-based company has expanded in just five years from a group of four to a staff of more than 30. Iris' products, which they design, manufacture and sell, include sensors, electronic instruments and software to help utilities and industry determine the condition of the electrical windings in large motors and generators. These products are used by major utilities throughout Canada and the United States, as well as by chemical and pulp and paper companies. Iris products are marketed internationally to help companies manage their maintenance programs more efficiently.



Iris Power Engineering

Begun by former employees of Ontario Hydro, Iris Power Engineering has successfully commercialized sensors, electronic instruments and software that help utilities and industry assess the condition of the electrical windings in their large motors and generators. Iris' equipment is used by pulp and paper and petrochemical companies; at cogeneration facilities, and by electrical utilities around the world.

In 1993, OHII entered into an investment for power-project development in Asia, called the Asia Power Group (APG). After the end of 1995, the partners in APG, OHII, Hydro-Québec International Inc. and Power Asia Assets Corporation, elected to dissolve this joint venture and to pursue opportunities in the region independently. APG has been an important instrument in furthering OHII's understanding and appreciation of the market in China and the Asian region generally. OHII remains confident in the power-sector development opportunities that exist in this region, and will be actively pursuing them through the Project Development and Consultancy Services Groups.



The operator of choice with investors, contractors and suppliers for power projects around the world – that's OHI's project development goal.

Work methods change but the commitment to building and operating a reliable and efficient power system hasn't changed in 90 years. Ontario Hydro's System Control Centre (top) monitors 80 generating stations and transmission lines across Ontario. The R.H. Saunders hydroelectric GS (right) on the St. Lawrence River spans the international border between USA and Canada. Nanticoke GS (lower) is one of the world's largest coal-fired stations.



Project Development

IN RECENT YEARS A NUMBER OF MARKET TRENDS HAVE CREATED AN UNPRECEDENTED need for reliable, experienced power-system operators.

Latin American countries are under considerable pressure to meet annual electricity-load growth forecasts of between five and eight percent at a time when they are also trying to increase their global competitiveness. Faced with these pressures, privatization of their electric utilities is important to improve the competitiveness of their domestic economies.

Argentina, Chile and Brazil are among the countries leading the region in setting ambitious targets for private-sector participation in their power-plan developments. Both Argentina and Chile are looking to the private sector to develop virtually all of their new generation capacity over the next 25 years (43 gigawatts and 13 gigawatts respectively). Similarly, Brazil is looking to the private sector to develop about one-third of the 125 gigawatts of new capacity planned by 2020.

To alleviate the energy and economic growth pressures, some countries are looking to improve their systems' capacity to exchange electricity with neighbouring countries. The Mercosur Group is just one recent initiative to form a multinational organization responsible for coordinating electricity exchanges between participating countries – Argentina, Brazil, Paraguay and Uruguay.

Asian countries face even stronger pressures to expand their power systems while



Performance and Achievements



Ghana

Part of OHII's 30-year relationship with the Volta River Authority (VRA) has included developing in-house operations training programs to staff the VRA's Kpong hydroelectric generating station. This relationship has grown to include a wide range of technical, materials management and customer service training in Ghana and at Ontario Hydro's home office.

improving the operating performance of their existing infrastructures. For countries such as China, India, the Philippines and Pakistan, power development represents a critical part of efforts to develop their market economies. In response to increasing competition from other countries in the region, Malaysia and Indonesia are also setting out on ambitious power-development programs to ensure their continued economic growth.

To meet these global competitive pressures, utilities throughout Latin America, Asia and Eastern Europe are increasingly dependent on reliable, efficient and cost-effective power generation and delivery systems.

With more than 35 years of experience in the international electric-utility marketplace, OHII provides utilities around the world with Ontario Hydro's proven capability to design, build, operate and rehabilitate power systems. Not only is Ontario Hydro's system one of the world's largest and most established, but also has the enviable reputation of also being one of the most reliable and efficient. Ontario Hydro's capability spans a system that includes hydroelectric stations (440 kilowatts to 135 megawatts), fossil-fired facilities (66 to 500 megawatts), nuclear stations, and a vast transmission and distribution system that services some 650,000 square kilometres and maintains 17 interconnections to other utilities in Canada and the United States.



Philippines

As a precursor to operating, maintaining and rehabilitating the Philippines' 200 megawatt fossil-fuelled Naga power station, OHII completed a station-wide condition assessment. Management and operating services included strengthening organizational structures and procedures, developing alternative fuelling options and preparing a power sales agreement and a full-scale, 10-year operations and maintenance budget.

Kuching

As part of OHII's continuing efforts to strengthen its links in target markets, OHII opened Sarawak's first representative office, in Kuching. This new presence builds on a eight-year relationship OHII has developed in delivering a wide range of technical and management services to Malaysia's power sector.



OHII's Project Development Group draws on this experience and the utility's long-standing international reputation to offer investor teams the capability to:

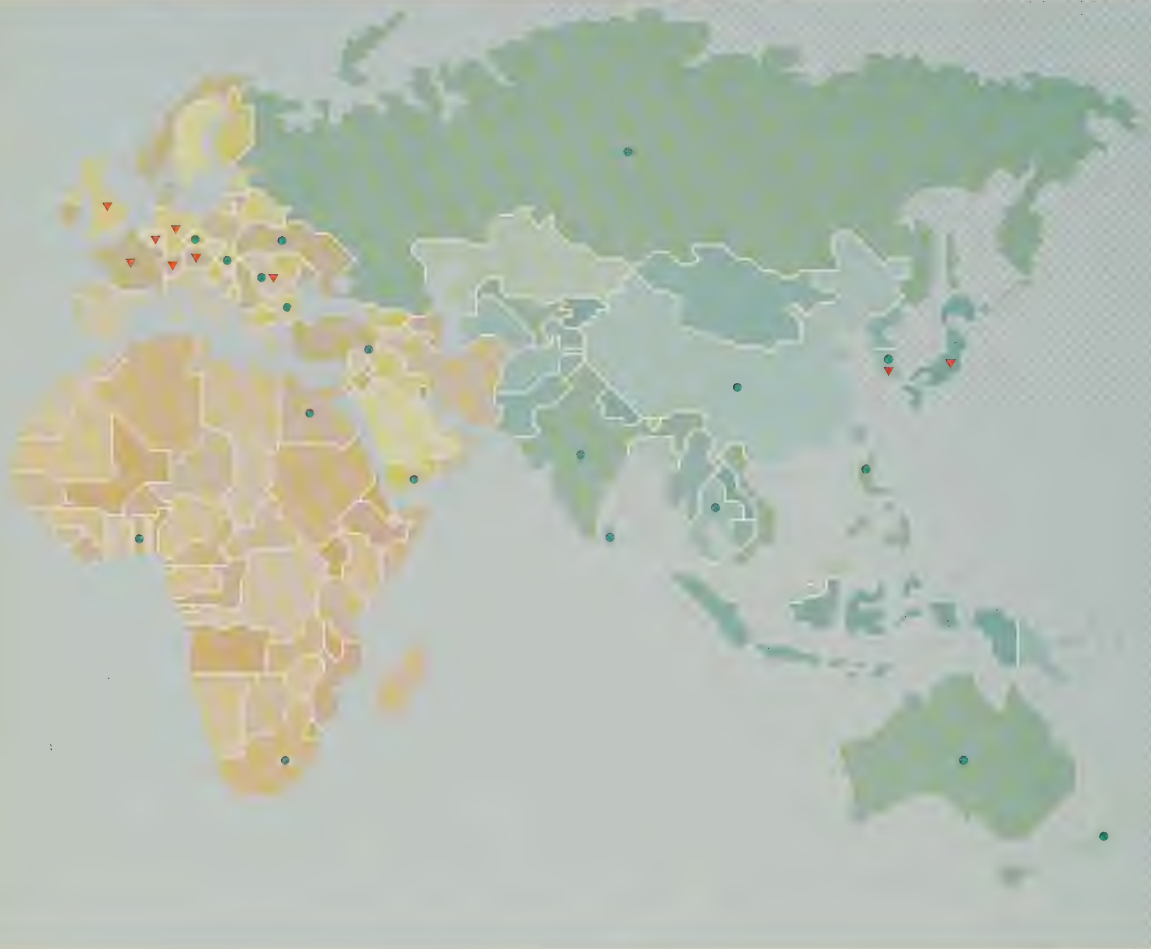
- integrate operations and maintenance needs into all phases of a greenfield power project;
- manage staffing and resourcing;
- plan and initiate facility start-ups and commissioning;
- design and implement business and environmental management systems and technology transfer programs

Through all of this is woven one common thread: a high standard of ethical business practices and a respect for human rights.

Over the past year, the Project Development Group aggressively pursued opportunities in Asia and Latin America to leverage Ontario Hydro's experience as a world-class power-system operator. Important progress has been made in positioning OHII as the operator of choice with investors, contractors and suppliers for power-project developments around the world.

International Contracts

(not necessarily delivered)



Australia

Live-line training

Austria

Heavy water

Belgium

Heavy water

Brazil

Energy audit

Power planning study

Bulgaria

Nuclear consulting services

Canada

Generator testing

Heavy water

Nuclear reactor maintenance

Repair & refurbishment of
steam turbine

Fossil rehabilitation &
life extension

Product knowledge guides

Rotor balancing

Cobalt

Tritium

Deuterium gas

Detritiation

China

Energy audit

Environmental training

High voltage utility studies

Hydroelectric design review

Strategic planning

System planning

Costa Rica

Wind power development

Watershed management

Czech Republic

Demand-side management

Strategic business consulting

Egypt

Institutional support

Transmission operations &
maintenance training

France

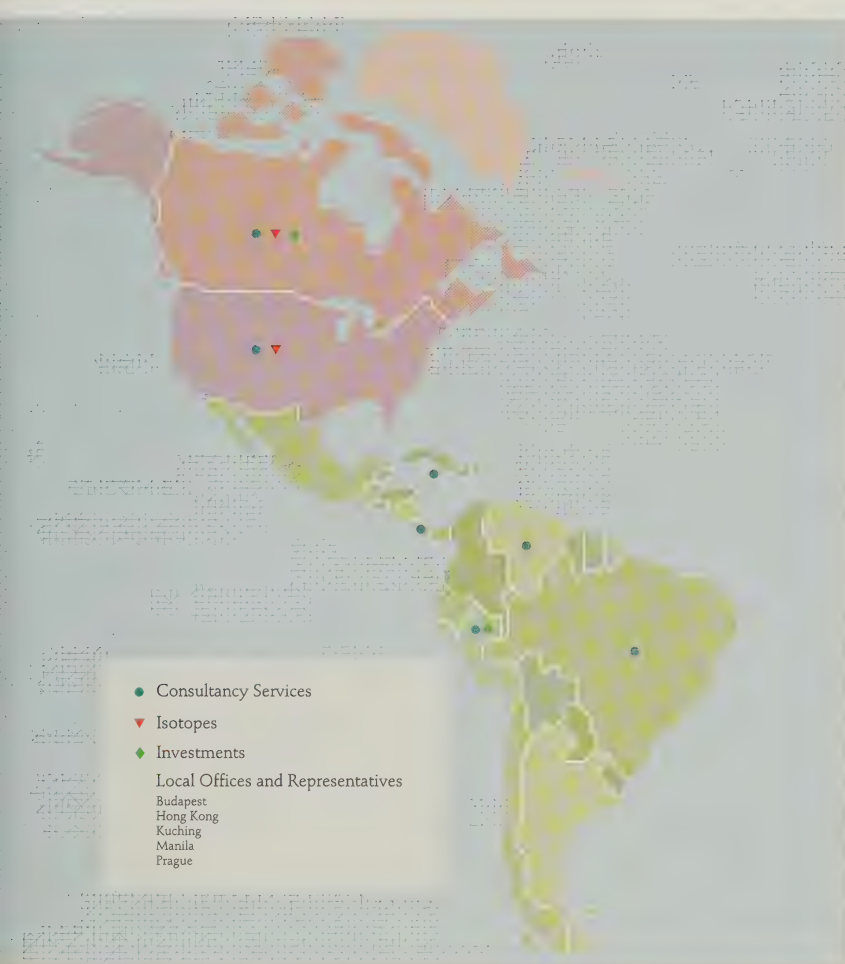
Heavy water

Germany

Deuterium gas

Heavy water

Tritium



Ghana
Material procurement
Technical training
Transformer repairs

Hungary
Live-line training

India
Demand-side management
Thermal rehabilitation
Transmission system planning

Jamaica
Fossil station assistance

Japan
Deuterium gas
Heavy water
Tritium

Lesotho
Preparation management study

Middle East
Egypt, Iraq, Jordan, Syria,
Turkey – Interconnection
study update

New Zealand
Engineering training
Hydroelectric consulting

Peru
Integrated protection & control
Utility management

Philippines
Management information
systems

Romania
Heavy water
Nuclear construction &
commissioning

Russia
Management training

South Korea
Heavy water
Management training
Procurement training
Integrated data acquisition
& control

Sri Lanka
Management information
systems

Switzerland
Heavy water

Thailand
Accounting & financial systems
Demand-side management
Live-line training

Ukraine
Hydroelectric rehabilitation
& system control
Nuclear waste management
Power study

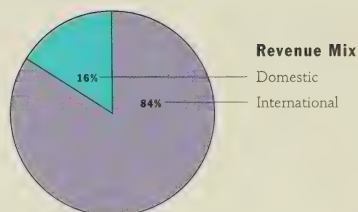
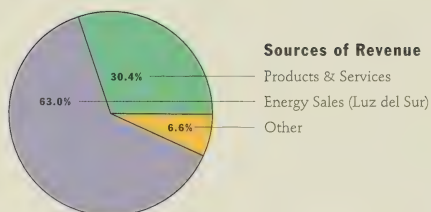
United Kingdom
Deuterium gas
Heavy water

United States
Deuterium gas
Engineering software
Generation monitoring
Generator testing
Heavy water
Performance testing
Thermal station maintenance
Tritium

Venezuela
Demand-side management
Energy audits

Yemen
Electrification feasibility study

Financial Summary



Years Ended December 31, (millions of dollars)	1995	1994	1993*	1992**	1991**
Revenues***	143.4	90.0	50.5	53.5	49.9
Income Before the Following	5.7	0.5	3.8	7.1	5.6
Restructuring Costs	0.7	(3.4)	-	-	-
Provision for Wind-up	(1.3)	-	-	-	-
Net Income for the Year	5.1	(2.9)	3.8	7.1	5.6
Total Assets	232.1	229.1	-	-	-

* Includes both pre and post incorporation.

** Unaudited as OHII was incorporated in August 1993.

*** Includes other income.

Year ended December 31, 1995, reflects the first full year results of OHII's joint ventures in Ontario Quinta A.V.V. and Asia Power Group Inc.

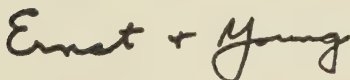
Auditors' Report

To the Shareholder of *Ontario Hydro International Inc.*

We have audited the consolidated balance sheet of *Ontario Hydro International Inc.* as at December 31, 1995 and the consolidated statements of income and changes in cash position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes, examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style script.

Chartered Accountants

Toronto, Canada,
April 16, 1996

Consolidated Balance Sheet

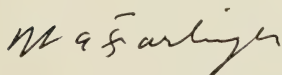
as at December 31 (thousands of dollars)

ASSETS	1995	1994
Current Assets		
Cash	13,613	11,249
Short Term Investments	32,792	34,097
Accounts Receivable, net (note 6)	44,053	54,466
Due from Ontario Hydro (note 15)	13,825	4,473
Inventories & Supplies	2,140	1,755
Prepaid Expenses	2,212	2,929
Total Current Assets	<u>108,635</u>	<u>108,969</u>
Fixed Assets		
Fixed Assets (note 7)	199,772	184,812
Less: Accumulated Depreciation	(98,854)	(93,744)
Total Fixed Assets	<u>100,918</u>	<u>91,068</u>
Other Assets		
Long Term Receivables (note 8)	18,636	24,000
Long Term Investments (note 9)	199	213
Goodwill (note 3)	2,437	3,485
Deferred Costs (note 10)	1,308	1,341
Total Other Assets	<u>22,580</u>	<u>29,039</u>
Total Assets	<u>232,133</u>	<u>229,076</u>

(see accompanying notes to financial statements)

LIABILITIES & SHAREHOLDER EQUITY	1995	1994
Current Liabilities		
Accounts Payable & Accrued Charges	25,211	34,996
Short Term Debt (note 11)	2,359	1,051
Total Current Liabilities	27,570	36,047
Long Term Liabilities		
Long Term Debt (note 11)	2,449	4,001
Refundable Customer Deposits (note 12)	6,236	6,634
Bonds Payable (note 12)	1,425	0
Deferred Income Taxes (note 13)	4,902	758
Total Long Term Liabilities	15,012	11,393
Total Liabilities	42,582	47,440
Non-Controlling Interest	21,263	17,518
Shareholders' Equity		
Common Shares	0	0
Contributed Surplus	167,000	167,000
Cumulative Translation Adjustment	(163)	746
Retained Earnings (Deficit)	1,451	(3,628)
Total Shareholder Equity	168,288	164,118
Total Liabilities & Shareholder Equity	232,133	229,076

On behalf of the Board,



Chairman, Board of Directors,



President & Chief Executive Officer

Toronto, Canada

(see accompanying notes to financial statements)

Consolidated Income Statement

for the year ending December 31 (thousands of dollars)

	1995	1994
Sales		
Products & Services	43,604	52,129
Energy Sales	90,352	32,769
Total Sales	133,956	84,898
Cost of Sales		
Products & Services (note 15)	32,147	34,715
Energy Sales	75,145	34,333
Depreciation (note 4)	4,872	1,402
Total Cost of Sales	112,164	70,450
Gross Profit	21,792	14,448
Other Expenses		
General, Administrative & Sales (note 15)	13,975	17,966
Interest Expense	1,917	365
Depreciation & Amortization (note 4)	665	396
Foreign Exchange	0	(38)
Total Other Expense	16,557	18,689
Other Income		
Investment Income	0	159
Interest Income	6,877	3,275
Other Income	2,590	1,711
Total Other Income	9,467	5,145
Non-Controlling Interest	4,862	386
Income before the Following and Income Taxes	9,840	518
Restructuring Costs (note 5)	(748)	3,387
Provision for Wind Up (note 16)	1,365	0
Income (Loss) before Income Taxes	9,223	(2,869)
Income Taxes	4,144	27
Net Income (Loss) for the Year	5,079	(2,896)

(see accompanying notes to financial statements)

Consolidated Statement of Changes in Cash Position

for the year ending December 31 (thousands of dollars)

	1995	1994
Operating Activities		
Net Income (Loss)	5,079	(2,896)
Adjust for non-cash items		
Depreciation and Amortization	5,537	1,798
Deferred Income Tax (note 13)	4,144	758
Investment Income	0	(159)
Other Income	(181)	0
Non-controlling Interest	4,862	386
Cash Flow from Operations	19,441	(113)
Due from Ontario Hydro (note 15)	(9,352)	(4,495)
Changes in non-cash balances relating to operations (note 14)	6,324	16,420
	16,413	11,812
Financing Activities		
Equity Contributed by Ontario Hydro	0	107,000
Refundable Customer Deposits and Bonds (note 12)	1,027	3,387
Debt (note 11)	(244)	(380)
	783	110,007
Investing Activities		
Investment in Ontario Quinta A.V.V.	0	(70,959)
Investment in APG Inc. (Canada)	0	(33,333)
Investment in Fixed Assets (note 7)	(13,683)	(4,979)
Deferred Costs (note 10)	(264)	(1,381)
Dividends paid to Non-Controlling Interest	(1,350)	0
Short Term Investments	1,304	(764)
Other	(839)	746
	(14,832)	(110,670)
Change in cash position during the year	2,364	11,149
Cash at beginning of year	11,249	100
Cash at end of year	13,613	11,249

(see accompanying notes to financial statements)

Notes to Consolidated Financial Statements

(All tabular amounts are expressed in \$ '000)

1. INCORPORATION & COMMENCEMENT OF OPERATIONS

Ontario Hydro International Inc. was incorporated in August 1993, under the provisions of the Ontario Business Corporations Act. Ontario Hydro International Inc. is a wholly owned subsidiary of Ontario Hydro, a public utility which operates under the authority of the Power Corporation Act. Ontario Hydro is responsible for the generation, supply and delivery of electric power throughout the Province of Ontario.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by Ontario Hydro International Inc. are described below.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada, applied on a basis consistent with that of the preceding year.

Ontario Hydro International Inc. uses the proportionate consolidation method in accounting for its interests in joint ventures. Investments, over which Ontario Hydro International Inc. can exert significant influence, are accounted for using the equity method.

Revenue Recognition

Ontario Hydro International Inc. uses the percentage of completion method to recognize revenue on fixed price contracts with a defined scope of work. For other contracts, revenue is recognized as services are provided or as products are delivered. Price escalation adjustments are recognized when they are established by specific contract terms. Commissions are recognized as earned.

Foreign Currency Translation

Ontario Hydro International Inc. translates its self-sustaining foreign operations using the current rate method, unless high inflation levels exist, in which case the temporal method is used. Under the current rate method all assets and liabilities are translated at period end exchange rates and revenues and expenses are translated at the average exchange rate for the period. The resultant exchange gains and losses are deferred and are included as a separate component of Shareholder's equity. Under the temporal method, monetary assets and liabilities are translated at period end exchange rates and non-monetary assets and liabilities at historical exchange rates. Exchange gains and losses are included in the determination of current period net income, except for those pertaining to long term monetary items, which are deferred and amortized on a straight line basis over the term to maturity of the related item. Foreign currency-denominated transactions are translated using the temporal method.

Short Term Investments

Short Term investments are valued at the lower of original cost and estimated market value.

Inventories & Supplies

Inventories and supplies are valued at the lower of original cost and estimated net realizable value with cost being determined on a first-in-first-out basis.

Fixed Assets

Fixed assets are depreciated on a straight-line basis over their estimated useful lives. Certain fixed assets with a net book value of \$297 thousand (1994 – \$446 thousand) are depreciated on a declining balance basis.

Fixed asset maintenance and repair expenditures are charged to the cost of sales as incurred, while renewals and betterments are capitalized. The cost of assets sold or retired, as well as related accumulated depreciation, are removed from the accounts and any gain or loss is reflected in income.

The service lives of the major classes of fixed assets are:

Distribution facilities	24 to 80 years
Transportation & other	8 to 16 years
Office equipment	5 to 10 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill is amortized on a straight-line basis over a ten year period. Goodwill is reviewed annually to ensure that the unamortized portion is recoverable from future net cash flows.

Deferred Costs

Direct costs related to the organization of new subsidiaries and joint ventures are deferred and amortized on a straight-line basis over a ten year period.

Income Taxes

Ontario Hydro International Inc. is not subject to Canadian income taxes. However, Ontario Hydro International Inc.'s joint venture interests are subject to income taxes in foreign jurisdictions. Ontario Hydro International Inc. uses the deferral method of income tax allocation to account for timing differences when revenues and expenses are recognized for accounting and tax purposes.

3. INVESTMENTS IN JOINT VENTURES

(i) Ontario Quinta A.V.V.

Ontario Hydro International Inc. holds a 25 percent interest in Ontario Quinta A.V.V. and is bound by an agreement with the Peruvian government not to dispose of its indirect interest in Luz del Sur for a period of five years from the date of purchase.

On July 12, 1994, Ontario Quinta A.V.V. purchased 60 percent of the stock of "Empresa de Distribucion Electrica de Lima Sur S.A." (Edelsur) for \$297 million. Edelsur, which subsequently changed its name to Luz del Sur, is an electricity distribution company serving the southern portion of Lima, Peru. The acquisition of Luz del Sur was accounted for under the Purchase method of accounting. The application of the Purchase method by Ontario Quinta A.V.V. resulted in the following acquisition values for Ontario Hydro International Inc.: (\$ thousands)

Total assets	\$114,401
Total liabilities	(27,462)
Goodwill recognized	3,641
Non-controlling interest	(17,141)
Total consideration	\$ 73,439

Net assets acquired included \$2,480 thousand in cash.

During 1995, additional assets with an ascribed value of \$1,350 thousand were received by Luz del Sur from Electrolima for no additional consideration. Accordingly fixed assets increased by \$1,350 thousand and the goodwill reduced 60% of the amount.

(ii) APG Inc. (Canada)

Ontario Hydro International Inc. holds a 50 percent interest in APG Inc.(Canada), which in turn owns two thirds of Asia Power Group Limited. This operation will be wound-up in 1996 (note 16).

4. DEPRECIATION & AMORTIZATION

	1995	1994
Fixed Asset Depreciation	5,170	1602
Goodwill Amortization	246	156
Deferred Cost Amortization	121	40
Total Depreciation & Amortization	5,537	1,798

5. RESTRUCTURING COSTS

In December 1994, the Board of Directors of Ontario Hydro approved a Special Separation Program (SSP) to encourage as many voluntary staff departures as possible, with the balance of targeted reductions to be achieved through involuntary measures. Employees of Ontario Hydro International Inc. were eligible to apply for the SSP. A provision of \$3,387 thousand was charged to income in 1994 to cover the estimated cost of Ontario Hydro International Inc.'s voluntary and involuntary staff departures, as well as costs related to surplus assets and relocation costs related to the staff reductions.

In 1995, \$748 thousand of the provision was considered excess to the company's needs and was reversed into income.

6. ACCOUNTS RECEIVABLE

Ontario Hydro International Inc.'s trade accounts receivable include unbilled contract revenues. The trade accounts receivable balance is summarized as follows:

	1995	1994
Trade & unbilled contract revenues	\$27,527	\$ 30,765
Power billings due from customers	20,058	17,923
Related parties	0	9,738
Other	2,852	1,094
Total Accounts Receivable	50,437	59,520
Less: Allowance for doubtful accounts	6,384	5,054
Net Accounts Receivable	\$ 44,053	\$ 54,466

Receivables from related parties were settled in 1995. Other accounts receivable include \$184 thousand (1994 - \$679 thousand) owed to Luz del Sur by its employees, with payments generally being made within six months.

7. FIXED ASSETS

Asset book values by major category are as follows:

	1995			1994		
	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation	Net
Land	\$ 2,769	\$ 0	\$ 2,769	\$ 580	\$ 0	\$ 580
Distribution Facilities	184,831	94,793	90,038	176,257	90,677	85,580
Transportation equipment	10,247	2,607	7,640	6,108	1,851	4,257
Office Equipment	1,769	1,417	352	1,694	1,146	548
Other	156	37	119	173	70	103
Total Fixed Assets	\$ 199,772	\$ 98,854	\$ 100,918	\$ 184,812	\$ 93,744	\$ 91,068

8. LONG TERM RECEIVABLES

The long-term receivables consists of unbilled revenue related to the production of Cobalt, which attracts interest at contractually agreed rates.

9. LONG TERM INVESTMENT

Ontario Hydro International Inc. holds a 20 percent equity interest in Iris Power Engineering Inc.

10. DEFERRED COSTS

Ontario Hydro International Inc. incurred and deferred in 1994 \$1,165 thousand in direct costs related to the organization of Ontario Quinta A.V.V. and its purchase of an interest in Luz del Sur. The total Deferred costs of \$1,308 thousand as at December 31, 1995 include \$162 thousand relating to project tracking systems development. The system is expected to go into service in 1996.

11. DEBT

The long term debt relates to uncollateralized debt held by Luz del Sur and owed to a bank. The loan bears interest at 8.21% per annum and is payable in equal annual instalments scheduled to commence in 1996 and finish in the year 2000. Interest expense is substantially all related to long term debt.

12. REFUNDABLE CUSTOMER DEPOSITS

Luz del Sur is entitled to request a reimbursable financial contribution from customers applying for new services, enlarging their connected power, or requiring an extension to the electrical grid. Under Peruvian law, contributions may be reimbursed in the form of bonds, electricity, or shares of the company. On December 15, 1994, Luz del Sur's shareholders agreed that bonds will be offered to repay customers making such contributions. In 1995, bonds worth \$1,425 thousand were issued. Interest is payable on the bonds at a floating rate equivalent to the average savings rate paid by Banco de Credito del Peru and mature on June 4, 2000.

13. INCOME TAXES

As at December 31, 1995, Luz del Sur had an unused income tax loss carry-forward amounting to \$8,000 thousand (1994 – \$2,270). The tax loss may be offset against future profits for a term of four years from the first year there is taxable income.

14. STATEMENT OF SOURCE AND USE OF CASH

The changes in non-cash balances related to operations consisted of the following:

	1995	1994
Accounts receivable - decrease (increase)	\$ 10,413	\$ (1,241)
Accounts Payable - (decrease) increase	(9,785)	15,217
Prepaid Expense - decrease (increase)	717	(2,860)
Long-Term Receivable - decrease	5,364	1,800
Inventories & Supplies - (increase) decrease	(385)	3,504
Total	<u>\$ 6,324</u>	<u>\$ 16,420</u>

15. RELATED PARTY TRANSACTIONS

Ontario Hydro International Inc. uses many of the financial and information systems of its parent, Ontario Hydro. As well, Ontario Hydro performs banking and several other administrative functions on behalf of Ontario Hydro International Inc. In 1995 Ontario Hydro charged an annual management fee of \$500 thousand (1994 – \$0) for services rendered.

Many of the products and services marketed by Ontario Hydro International Inc. originate with the parent organization, Ontario Hydro. Ontario Hydro policy governs the costing of transfers between itself and Ontario Hydro International Inc. Generally, this policy requires that inter-company transfers be costed in a manner which is equitable to Ontario Hydro's electricity customers. In most cases, product transfers occur at the additional cost required to make a product ready for sale. Human resource transfers are costed based on salaries and applicable burdens, plus any other specific identifiable costs. Most of the cost of sales for Products and Services, as well as General, Administrative & Sales expense, represent cost transfers from Ontario Hydro.

During 1995, Ontario Hydro International Inc. provided technical and administrative services totalling \$2,024 thousand [1994 – \$308 thousand] to Luz del Sur and project marketing services totalling \$21 thousand [1994 – \$415 thousand] to Asia Power Group. Ontario Hydro International Inc. made no purchases from Luz del Sur or Asia Power Group.

16. PROVISION FOR WIND-UP

In December 1995 the Company announced its intention to dispose of its investment in APG Inc. (Canada) joint venture. Subsequent to year end the other joint venture partners of APG Inc. (Canada) decided to wind up the operations of the joint venture. Accordingly a provision for the Company's proportionate share of wind-up costs has been accrued.

17. DESEGREGATED FINANCIAL INFORMATION

Management has determined that the financial results of Ontario Hydro International Inc. should be grouped into three geographic segments; namely Canada (mainly Products & Services), South America (Ontario Quinta A.V.V.) and South-East Asia (Asia Power Group).

(Years Ended December 31,)

	1995	1994
Sales		
Canada	44,017	52,172
South America	90,352	32,769
South East Asia	0	0
	<u>134,369</u>	<u>84,941</u>
Sales Between Geographic Regions	(413)	(43)
Consolidated Revenues	<u>133,956</u>	<u>84,898</u>
Other Income		
Canada	973	241
South America	6,485	4,417
South East Asia	2,009	487
Total	<u>143,423</u>	<u>90,043</u>
Expenses		
Canada	32,812	40,051
South America	79,952	35,919
South East Asia	1,986	715
Corporate Expenses	12,054	12,089
Interest Expenses	1,917	365
Non-controlling Interest	4,862	386
Restructuring Costs	(748)	3,387
Provision for Wind-up	1,365	0
Income Taxes	4,144	27
Net Income (Loss)	<u>5,079</u>	<u>(2,896)</u>
Identifiable Assets		
Canada	62,628	62,046
South America	136,294	132,551
South East Asia	33,211	34,479
Total Consolidated Assets	<u>232,133</u>	<u>229,076</u>

18. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from the statements previously presented to conform to the presentation of the 1995 consolidated financial statements.

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In the Field

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Peter Gelberger
Gwen Keene
Jon Kieran
Rob Lorenz
Rob Machacek
Frank Schneider
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